

# EXHIBIT A.206

(8 of 8)

**Box 7.1: Social Policy and Safety Nets****General Reform Initiatives:**

- *Strengthen program coordination.* The PA and donors often operate programs independently of one another with little exchange of information either at the policy or operational levels. Even within the PA, some line ministries are largely unaware of other ministries' programs with similar aims. At a minimum, regular fora for information exchange should be set up by the Ministry of Planning, such as monthly policy meetings, where attendance by line ministries and donors is mandatory.
- *Reduce potential for overlapping programs and beneficiaries.* Due in part to the lack of coordination between providers, there are many interventions purporting to reach the same or very similar populations with similar benefits. A few examples highlighted in the chapter include:
  - MOSA provides vocational training for dropouts and young adults, while MOL also provides vocational training for unemployed adults.
  - MOSA provides cash transfers to the needy through the Social Hardship Case program, the UNRWA provides similar benefits to the refugee population through its Social Hardship Case program and the Ministry of Detainees and Ex-Detainee Affairs provides a separate transfer program for those detained in Israel and their families.
  - Both UNRWA and WFP provide similar packages of in-kind food rations to similar populations, differing primarily only in their refugee status.
- *The development of a strategy for social protection that would identify and clarify the roles of the PA, donors and private sector is highly desirable.* This process could lead to a review of the legislative framework governing ministry mandates and new amendments to develop a more streamlined and effective social protection system.
- *Improve policy planning, budgeting and fiscal management.* Social protection line ministries should take a more active role with regard to policy planning and fiscal management. Currently, they see themselves only as implementers of policies developed elsewhere in the PA. Little attention is given to budget planning or to linking expenditures to revenues or transfers. It is frequently difficult to obtain recent budget and expenditure information from ministries, and when it is available it bears little relevance to actual operations. This is partly a reflection of the uncertain revenues that have plagued the PA, but is also a problem with overall fiscal management. Planning units should be developed within the key ministries, Management Information Systems (MIS) should be upgraded to allow monitoring of program performance and budget departments should move toward more systematic programmatic budgeting practices.
- *Develop and implement a monitoring and evaluation strategy.* Programs such as the SHC programs, the TEP and others should be subject to routine monitoring through an updated MIS, and should be part of a strategy of external program evaluation. Only through rigorous monitoring and evaluation can programs be improved and effective long term funding decisions taken to enhance fiscal sustainability.

**Program Level Initiatives:**

- *Reform the pension system.* This is a top priority from a fiscal perspective. Implicit debt accumulated from the current civil service schemes are nearly twice current GDP, and even making payments to current recipients requires an ever-larger share of the budget, estimated at nearly 2 percent of GDP in 2005. Fundamental reform is not a short term undertaking. However, an initial step would be to strengthen the administrative capacity of the GPIC. It would also include analyzing and revising the Unified Pension Law to adjust the parameters of the current public system to ensure long term sustainability, revising the Unified Pension Law, strengthening the GPIC and eventually developing an independent and transparent pension institution. Similar reform is needed with regard to the 2003 Social Security Law for private sector workers.

*Continued...*

- *Improve safety net targeting.* Preliminary analysis of the MOSA Social Hardship Case program found high leakages of benefits to non-poor individuals. Targeting methods that move away from categorical targeting to more needs-based standards, such as a proxy-means approach, can increase the proportion of benefits that go to the poor. The Social Safety Net Reform Project is developing a pilot proxy-means test which could be considered for wider application across different safety net programs.
- *Consider a public workfare program component.* MOSA and the PA would benefit from considering a traditional self-targeted workfare program component, perhaps as part of TEP, to provide benefits to the able-bodied poor unemployed in a way that does not burden the staff-heavy public sector and does not require a screening mechanism to identify participants. Workfare projects can also be targeted to geographic areas with particularly high unemployment and poverty.

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## **ANNEX 1: PUBLIC EXPENDITURE AND FINANCIAL ACCOUNTABILITY (PEFA) PERFORMANCE INDICATORS**

The measurement framework developed by the Public Expenditure and Financial Accountability (PEFA) program is an integrated methodology that allows the measurement of public financial management (PFM) performance over time. This set of high level indicators, which draws upon the methodology used by the World Bank and IMF in assessing the PFM systems in highly indebted countries (HIPC), the IMF Fiscal Transparency Code and other international standards, highlights areas of improved performance against best practice in developed and developing countries. The indicators analyze performance in the six core areas of public financial management:

1. Credibility of the budget
2. Comprehensiveness and transparency
3. Policy-based budgeting
4. Predictability and control in budget execution
5. Accounting, recording, and reporting
6. External audit.

The central government level is the main area of focus, along with issues relating to the overall scrutiny of public finances. The activities of public enterprises and sub-national levels of government are not addressed directly.

### **I. Methodology**

Each indicator is broken down into several dimensions, which are assessed separately to generate a combined score along a 4- point scale. The highest possible score is an "A", while lower scores, "C" or "D", suggest areas for improvement. In some cases, an intermediate score indicated by a "+" may be appropriate. Also, a ↑ may highlight progress in indicators where reforms implemented to date have not yet impacted PFM performance. Further information on the methodology may be found in the PEFA website along with documentation published by the World Bank's PEFA Secretariat.<sup>104</sup>

Some of the indicators were not rated since the topics concerned fell outside the scope of this mission (for example, indicators 13-15 on taxation) and indicator 19 on procurement, which will be covered by an on-going analytic report.

<sup>104</sup> PEFA, "Public Financial Management, Performance Measurement Framework," PEFA Secretariat, World Bank, June 2005 ([www.pefa.org](http://www.pefa.org)).

## PEFA Indicator Set: West Bank &amp; Gaza 2006

A. PFM-OUT-TURNS: Credibility of the Budget		SCORE
<b>PI-1</b>	<p><b>Aggregate expenditure out-turn compared to original approved budget</b></p> <p>(i) Difference between actual expenditure and budgeted expenditure during 2003-05</p> <p>Actual expenditure deviated from budgeted expenditure by 6.3% in 2003, by 4.2% in 2004 and by 13.9% in 2005 (excluding debt service and externally financed project expenditure, see section Summary of PA Finances). (source: IMF)</p>	<b>B</b>
<b>PI-2</b>	<p><b>Composition of expenditure out-turn compared to original approved budget</b></p> <p>(i) Extent to which the variance in primary expenditure composition exceeded the overall deviation in expenditure during 2003-05 1/</p> <p>The variance in expenditure composition exceeded the overall deviation in primary expenditure by 25.7% in 2003, by over 6% in 2004 and by 5.8% in 2005 (source: IMF). Thus in executing the budget for 2003 there was a significant reallocation of expenditures across items, but this was considerably less in 2004 and 2005 budget execution.</p>	<b>C</b>
<b>PI-3</b>	<p><b>Aggregate revenue out-turn compared to original approved budget</b></p> <p>(i) Actual domestic revenue collection compared to domestic revenue estimates for 2003-05 2/</p> <p>Actual domestic revenue collection exceeded revenue forecasts by 30.4% in 2003, by 6.1% in 2004 and by 23.8% in 2005 (source: IMF). This strong revenue performance is attributed to improvements in tax collection and administration and the decision of the GOI to resume withheld clearance revenues, rather than weaknesses in revenue forecasting.</p>	<b>B</b>
<b>PI-4</b>	<p><b>Stock and monitoring of expenditure payment arrears</b></p> <p>(i) Stock of expenditure payment arrears</p> <p>Due to the shortage of funding for operational expenditures arrears to suppliers and borrowing from commercial banks arise. Due to the unpredictability of the release of funds, line ministries accumulate expenditure arrears, based on the implicit assumption that these will in due course be paid by funding from the MOF. The stock of arrears to commercial banks stood at \$600 million at the end of 2005.</p> <p>(ii) Availability of data for monitoring expenditure payment arrears</p> <p>Data is held by the MOF concerning borrowing from commercial banks and arrears for payments made centrally by MOF. Line ministries are required to maintain information on arrears for items paid direct by them and inform the MOF. However, there is no transparent system to determine the relative priority in which arrears are paid.</p>	<b>D+</b>

<b>B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency</b>		
<b>PI-5</b>	<b>Classification of the budget</b> (i) The classification system for budget formulation, execution and reporting of the central government's budget The budget classification provides limited breakdown of expenditures. The object classification is not consistent with GFS. There is no functional classification. There is no provision in the standard chart of accounts for breakdown of expenditure by spending units, programs or activities.	<b>D</b>
<b>PI-6</b>	<b>Comprehensiveness of information included in budget documentation 3/</b> (i) Share of the listed information in the budget documentation by the central government Recent budget documentation (Budget book, annual budget law, Minister of Finance's budget speech, budget circular) fulfils 6 of the information benchmarks. It includes information on 1. macroeconomic assumptions, aggregate growth, inflation and exchange rate, 2. Fiscal deficit, 3. Deficit financing, 6. Prior year's budget out-turn, 7. Current year's budget, 8. Summarized data on revenues and expenditures.	<b>B</b>
<b>PI-7</b>	<b>Extent of unreported government operations</b> (i) Level of extra budgetary expenditure (other than donor funded projects), which is unreported i.e. not included in fiscal reports The level of extra-budgetary expenditure (other than donor funded projects) is insignificant. The comprehensiveness of the budget has been enhanced by the establishment of a central treasury account to receive all PA revenues. The Organic Budget law provides that the central budget comprises the consolidated fund and all special PA funds. The budget encompasses the expenditures of all PA ministries, agencies and public institutions). (ii) Income/expenditure information on donor-funded projects, which is included in fiscal reports Donor project funding has traditionally funded the great bulk of PA capital expenditures. However, the 2006 budget circular required information on all donor projects, with a view to developing a comprehensive budget dialogue reflecting the scope of the draft MTDP 2006-08. Information on donor funded projects is now being incorporated in the project data base developed by MOP (although it is recognized as neither fully complete nor accurate) as part of the MTDP. This information, including PECRAR managed projects, is included in the Budget book.	<b>C+</b>
<b>PI-8</b>	<b>Transparency of inter-governmental fiscal relations</b> (i) Transparent and rules based system in the horizontal allocation among governorates of unconditional and conditional transfers from central government	<b>D+</b>

<p>Transfers from the central government are small and consist of automobile licensing fees and fines, which are allocated in proportion to their population size. The bulk of local revenue is from user charges (e.g. water and electricity charges) and smaller amounts of property tax. The main current issue in inter-governmental fiscal relations concerns local authority debts to the central government for energy bills paid to Israel on their behalf by MOF (see also discussion under PI-9).</p> <p>(ii) Timeliness of reliable information to local government allocations from central government of the incoming year No information is provided to local governments on the timing and amount of the transfers agreed with the MOLG.</p> <p>(iii) Consolidated fiscal data is collected and reported for general government across sectoral categories Local governments operate without a guiding framework for accounting and financial management. The lack of a unified chart of accounts results in revenues and expenditures being reported differently by different municipalities, making data aggregation at the sector level impractical and unreliable. The General Accounting Office of MOLG carries out periodic audits, but no reports are prepared and their findings remain undisclosed. The submission of local government financial statements has been irregular.</p>	D	
<p><b>PI-9 Oversight of aggregate fiscal risk from other public sector entities</b></p> <p>(i) Extent of central monitoring of autonomous government agencies and public enterprises Only two SOE's remain: the Petroleum Corporation managed directly by MOF, and the Cement Company, which is part of the PIF investment portfolio and overseen by PIF. They operate on a commercial basis and their operations are not included in the budget. The recent reduction in PIF's fiscal reporting has been problematic.</p> <p>(ii) Extent of central government monitoring of sub-national governments' fiscal position The monitoring of the fiscal position of local governments is weak and there is no consolidated report. MOLG lacks capacity to monitor. Local governments have accumulated liabilities to the PA for utility bills paid to Israel on their behalf, reflected in the budget as part of the "net lending" component. The previous practice of local government negotiating programs directly with donors has ceased, but local governments can incur in debt subject to the approval of the MOLG.</p>	C	D+
<p><b>PI-10 Public access to key fiscal information</b></p> <p>(i) Public access to information includes: Annual budget documentation, in-year budget execution reports, financial statements, external audit reports, contract awards, resources to primary service units (such as primary schools and hospitals.)</p>	C	C

Progress has been made in providing greater access to fiscal information, but many of the above documents are not available because they have been delayed or not compiled. In-year monthly budget execution reports are available to the public and accessible at the MOF's website, as well as the Budget Speech, annual expenditure estimates and previous years' actual expenditure data.		
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**C. BUDGET CYCLE****C (i) Policy-Based Budgeting**

<b>PI-11</b>	<b>Orderliness and participation in the annual budget process</b>		<b>C+</b>
	(i) Existence and adherence of a budget calendar A clear budget calendar is set out in the Organic Budget Law. The budget circular is to be issued by 15 July and line ministries have one month to respond, with the proposed budget to be submitted to Cabinet by 15 October, presented to the PLC by November 1 and passed by it on or before 31 December. Except for minor slippages this timetable has been adhered to. However, given the special circumstances of the 2006 election, the 2006 budget had not been presented to the PLC as of June 2006.	<b>B</b>	
	(ii) Clarity/comprehensiveness of political involvement in the guidance on the preparation of budget submissions The timetable allows little time for dialogue with line ministries or for Cabinet consideration or PLC review. The budget circular provides indicative allocations. The negotiations between the line ministries and the MOF concern only costing issues with no clear prioritization, performance or policy focus. When budget estimates reach the Cabinet, they are at their final stage with little time for an extensive review. Neither Cabinet nor PLC receives sufficient information (e.g. proposed expenditures by spending units for serious review.	<b>C</b>	
	(iii) Timely budget approval by PLC The PLC has, in two of the last three years, approved the budget with one month delay. The 2003 budget was approved on Feb 1/03, the 2004 budget on Jan 15/04 and the 2005 budget on Mar 31/05. It has not received or approved the 2006 budget, as of May 06, due to special circumstances.	<b>C</b>	
<b>PI-12</b>	<b>Multi-year perspective in fiscal planning, expenditure policy and budgeting</b>		<b>D</b>
	(i) Preparation of multi-year fiscal forecasts Forecasts of fiscal and macroeconomic aggregates are prepared on an annual basis by PCBS, working with IMF and World Bank. Work is underway on developing a medium-term fiscal framework. Starting in 2006 line ministries were provided with three year indicative recurrent expenditures and required to present estimates for total expenditures for the budget year and the following two years. However, this was more an exercise to sensitize budget entities to a multi-year budget framework and was not used by the MOF in the preparation of the 2006 budget.	<b>C</b>	
	(ii) Scope and frequency of debt sustainability analysis	<b>D</b>	

	<p>No debt sustainability analysis has been undertaken in the last three years (see indicator P-17).</p> <p>(iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure</p> <p>Some sectors have prepared several competing plans, each of which reflects the work of different donors. The capacity of line ministries to develop meaningful plans requires significant development, but is being addressed in the context of initiatives to better link planning and budgeting through the draft MTDP 2006-08.</p> <p>(iv) Linkages between investment budgets and forward expenditure estimates</p> <p>Budgeting for investment and recurrent expenditure are separate processes, reflecting in part non-integration of donor funding. This may lead to unforeseen recurrent cost implications of capital or investment expenditures. However, a more comprehensive budget process to include donor funded projects and thus to provide better linkage is being developed through the draft MTDP 2006-08.</p>	D	
		D	

C (ii) Predictability and Control in Budget Execution			
PI-13	Transparency of taxpayer obligations and liabilities		n/a
PI-14	Effectiveness of measures for taxpayer registration and tax assessment		n/a
PI-15	Effectiveness in collection of tax payments		n/a
PI-16	<b>Predictability in the availability of funds for commitment of expenditures</b>		D+
	<p>(i) Cash flows are forecast and monitored</p> <p>There is no systematic forecasting system or related monitoring system covering cash management and budget execution. A representative cash management committee would alleviate the current day-by-day approach to funds release and provide a basis for monitoring the extent to which the budget (both revenues and expenditures) is on track, hence, increasing predictability.</p> <p>(ii) Reliability and horizon of periodic in-year information to ministries and agencies on ceilings for expenditure commitments</p> <p>There is a serious lack of predictability of funding for operational expenditures. During the year line ministries have no advance knowledge of the amounts they will receive to make payments, when and for which items. There is no system of commitment control and many ministries assume the budget allocation is the upper limit for commitments. The accumulation of payments arrears has led suppliers to increase their prices to compensate for delays in payment.</p>	D	
	(iii) Frequency and transparency of adjustments to budget allocations decided above the level of the ministries and agencies	B	

	<p>There are relatively few adjustments to budget allocations given that appropriations are highly aggregated and based on ministry or agency, expenditure item or object. The MOF monitors the implementation of the budget on the more aggregate information, as set out in the annual Budget law, which does not allocate funds to particular spending units. The Organic Budget Law (Article 50) provides that funds cannot be reallocated between budget chapters without PLC approval. The annual budget law provides that budget entities may not reallocate from one of the 14 predefined expenditure items without the approval of MOF.</p>		
<b>PI-17</b>	<p><b>Recording and management of cash balances, debt and guarantees</b></p> <p>(i) Quality of debt data recording and reporting</p> <p>External debt records are updated and reconciled annually. Domestic debt records, which are the bulk of the obligations, are not as comprehensive and have gaps and reconciliation issues. However, debt service payments are made on time. However an external audit would confirm if the system operates satisfactorily, as part of the audit of the annual financial statement.</p> <p>(ii) Extent of consolidation of the government's cash balances</p> <p>Cash balances are calculated and consolidated weekly, rather than daily. While the establishment of the CTA was an important step to improve cash management, it was spread over more than 1500 accounts and sub-accounts, including over 650 bank accounts and over 400 accounts used for advances only. Computerization improvements appear necessary for daily sweeping of accounts to occur.</p> <p>(iii) Systems for contracting loans and issuance of guarantees</p> <p>The approval of the Minister of Finance is required for all loan agreements and issuance of guarantees, but neither is based on an overall ceiling and there are no criteria for guarantees, although they are required to be reported in the official Gazette.</p>	<p><b>D</b></p> <p><b>B</b></p> <p><b>C</b></p>	<b>C</b>
<b>PI-18</b>	<p><b>Effectiveness of payroll controls</b></p> <p>(i) Degree of integration and reconciliation between personnel records and payroll data</p> <p>Personnel records and payroll data are not directly linked and there are reconciliation problems. The flow of information between the GPC, the MOF, and the MOI is paper-based, resulting in limited integration between personnel records and the payroll data. However the GPC is actively developing a plan for a HR database system linked to the payroll and is working closely with the payroll directorate at the MOF.</p> <p>(ii) Timeliness of changes to personnel records</p> <p>Up to three month's delay occurs in updating the changes to personnel records and the payroll. Retroactive adjustments are made occasionally.</p> <p>(iii) Internal controls of changes to personnel records and the payroll</p> <p>The authority and the basis for changes to personnel records and</p>	<p><b>C</b></p> <p><b>B</b></p> <p><b>C</b></p>	<b>C+</b>

	<p>payroll are clear for the civil service, but not for the security services. An improvement to payroll management was the transfer of authority to change personnel records and payroll from the GPC to the MOF. GPC now controls only personnel policy issues and promotions. New civil service recruitment requests are sent to the Budget Office at the MOF and shared with GPC. The budget officer certifies the availability of funds, before the approval by the Minister himself. Clearance is needed from the Director General of Financial Control at the MOF and the financial controller at the line ministry. Payroll control at the MOI is independent of the MOF and there is limited ability to enforce compliance, resulting in limited connection between recruitment and budget allocations.</p> <p>(iv) Existence of payroll audits to identify control weaknesses and ghost workers</p> <p>A payroll audit in July 2005 focused on identifying partial and double dippers, ghost workers and the lack of documentation. A follow up audit of the payroll has been planned to assess the controls in greater detail.</p>	C	
<b>PI-19</b>	<b>Competition, value for money and controls in procurement</b>		n/a
<b>PI-20</b>	<p><b>Effectiveness of internal controls for non-salary expenditure</b></p> <p>(i) Effectiveness of expenditure commitment controls</p> <p>While expenditure commitments are required to be recorded, there is no commitment control system in place, to limit commitments to likely available cash. Most line ministries appear to treat the budget allocation as the upper limit on commitments (see P-16).</p> <p>(ii) Comprehensiveness, relevance and understanding of other internal control rules/ procedures</p> <p>The internal control rules are comprehensive and understood. Given the tight budgetary situation of the PA, the ex ante financial controller system, which also reviews financial reports and bank reconciliations, may prove effective in expenditure control in the short term. However, it needs to operate efficiently without leading to delays and duplication in approvals.</p> <p>(iii) Degree of compliance with rules for processing and recording transactions</p> <p>Compliance with rules is high.</p>	<p>D</p> <p>B</p> <p>B</p>	D+
<b>PI-21</b>	<p><b>Effectiveness of internal audit</b></p> <p>(i) Coverage and quality of the internal audit function 4/</p> <p>The new Internal Audit Department was created in the MOF in May 2004 and until June 2006 made good progress towards becoming an effective organization. A number of useful audits were carried out (e.g. payroll audit, see P-18), a strategic plan has been developed and a systems approach adopted. Capacity development was provided by the EC through the financial control and internal audit technical advice and training program provided by Ernst &amp; Young. However it was recognized that, the Department would take time to become fully operational.</p>	C↑	C↑

<b>C (iii) Accounting, Recording and Reporting</b>		
<b>PI-22</b>	<b>Timeliness and regularity of accounts reconciliation</b> (i) Regularity of bank reconciliation Treasury undertook the reconciliation of the central treasury account at the end of each month. Line ministries reconciled their advance accounts and development project accounts, but more attention was needed to ensuring they were done regularly. The reconciliation process is transparent. (ii) Regularity of reconciliation and clearance of suspense accounts and advances Reconciliation and clearance of suspense accounts and advances takes place only annually and some accounts have un-cleared balances brought forward. A lag in the reconciliation of advances has delayed the preparation of the annual financial statements. Procedures for closing accounts, proving their accuracy, making final adjustments and formulating financial statements have not been formally established.	<b>C</b>
<b>PI-23</b>	<b>Availability of information on resources received by service delivery units</b> (i) Collection and processing of information to demonstrate the resources received by the front-line service delivery units (primary schools and health clinics) The chart of accounts does not provide for recording expenditures at the spending unit level, although this may be done by line ministries using their own accounting systems e.g. MOH	<b>D</b>
<b>PI-24</b>	<b>Quality and timeliness of in-year budget reports</b> (i) Coverage and compatibility of the reports with budget estimates The classification of the budget execution reports allows comparison to the budget, but only at an aggregate level. While the figures are preliminary, they have been generally close to the final numbers, as discussed in (ii) below. (ii) Timeliness of the issue of reports Budget execution reports with information on revenues and expenditures have been prepared monthly and made available to the public on the website of the MOF shortly after the end of each month. Figures were preliminary for 4 to 12 weeks, as the MOF completes the reconciliation process, the recording of advance expenditure, and consolidation of figures. (iii) Quality of information Overall data quality is fair and data issues are generally highlighted in the reports, but there is no external audit to provide credibility to the figures.	<b>B</b>
<b>Quality and timeliness of annual financial statements</b>		<b>D+</b>

<b>PI-25</b>		
	<p>(i) Completeness of the financial statements</p> <p>The first aggregate financial statements of the PA were submitted in January 2004 for the year 2002, but were largely confined to a statement of budget execution, lacking information on the PA's financial position (financial assets and liabilities) and a clear definition of the budget balance. Some of this additional information was included in the 2003 financial statements, but they still did not meet international standards (IPSAS). Based on the English translation, the 2004 financial statements appear to be less satisfactory than the 2003 statements, being limited to a summary statement of budget execution (i.e. no supplementary information on financial assets or liabilities or any reference to the PA's financial position). It is also difficult to understand the calculation of the financing balance. No financial statements for 2005 appear to have been prepared.</p>	<b>C</b>
	<p>(ii) Timeliness of submission of the financial statements for external audit</p> <p>Financial statements for 2003 were completed in late 2004 and submitted for audit by a private firm. Price Waterhouse Coopers completed the audit in January 2006 and prepared a detailed management letter of over 100 pages that awaits a response from the PA before the audit can be finalized. The 2004 preliminary statements were posted on the MOF website in June 2005 but had not been submitted for audit as of June 2006.</p>	<b>D</b>
	<p>(iii) Accounting standards used</p> <p>The accounting standards used are not disclosed.</p>	<b>D</b>

<b>C (iv) External Scrutiny and Audit</b>		
<b>PI-26</b>	<p><b>Scope, nature and follow-up of external audit</b></p> <p>(i) Scope/nature of audit performed (incl. adherence to auditing standards) 4/</p> <p>There is no effective external audit institution. The work of new external audit institution, which replaced the GCI, the Finance and Administrative Control Bureau, has been severely hampered by lack of capacity and resources. However, its legislation provides for adequate independence and for reporting to the PLC, as well as to the President (addressing a weakness in the reporting arrangements of the GCI). The President and Deputy President have been appointed.</p> <p>(ii) Timeliness of submission of audit reports to legislature</p> <p>GCI reported directly to the President and its audit reports were not submitted by the President to the PLC or otherwise made public.</p> <p>(iii) Evidence of follow up on audit recommendations</p> <p>There is no evidence of response to or follow-up on GCI recommendations from the Executive. In addition, recommendations did address significant issues.</p>	<p><b>D</b></p> <p><b>D↑</b></p> <p><b>D</b></p> <p><b>D</b></p>

<b>PI-27</b>	<b>Legislative scrutiny of the annual budget law</b>	<b>C+</b>
	<p>(i) Scope of the PLC's scrutiny The PLC Committee on Budget and Financial Affairs is responsible for reviewing and recommending approval or rejection of the annual budget law. While the Committee has worked conscientiously it has lacked both the information and resources for effective scrutiny of either macro-economic issues or detailed revenue and expenditure issues.</p> <p>(ii) Extent that the PLC's procedures are well -established and respected The Organic Budget Law details the Committee's role, which has been exercised since meaningful budgeting commenced with the 2003 budget.</p> <p>(iii) Adequacy of time for the PLC to provide a response on the budget proposals, both on the estimates and macro-fiscal aggregates The PLC has insufficient time (less than two months) to fully review the budget proposals. Its role is weakened by the aggregated nature of the budget appropriations and the lack of effective external audit reporting on the previous year's budget execution or on performance of budget entities.</p> <p>(iv) Rules for -in-year amendments to the budget without ex-ante approval of the PLC Clear rules exist in the annual budget law for in-year amendments to the budget without the approval of the PLC, which include administrative reallocations. However additional appropriations require PLC approval (see P-16).</p>	<p><b>C</b></p> <p><b>B</b></p> <p><b>C</b></p> <p><b>C</b></p>
<b>PI-28</b>	<b>Legislative scrutiny of external audit reports</b>	<b>D</b>
	<p>(i) Timeliness of examination of audit reports by the PLC The previous external audit institution, GCI, did not report to the PLC but only to the President. The President, who had the discretion of sharing such reports with the PLC, did not do so after 1997.</p> <p>(ii) Extent of hearings on key findings No hearings have been conducted by the PLC</p> <p>(iii) Issuance of recommendations by the PLC and implementation by the executive The PLC has not made recommendations on external audit reports.</p>	<p><b>D</b></p> <p><b>D</b></p> <p><b>D</b></p>

**D. DONOR PRACTICES**

<b>D-1</b>	<b>Aggregate expenditure out-turn compared to original approved budget</b>	<b>D</b>
	<p>(i) Annual deviation of actual external financing from budgeted external financing for 2004-05. 5/ External financing fell short of budget estimates by 56 percent for 2003, by 46 percent for 2004 and 47 percent for 2005 (source: World Bank). In 2005 external budget support amounted to \$350 million of the estimated \$663 million in the budget (without taking into account a further \$240 million anticipated for a special social safety net fund).</p>	<b>D</b>

	(ii) In- year timeliness of donor disbursements Bilateral Arab donors have made unconditional commitments to the PA, of which the size and date of the disbursement is unpredictable. Other donors make conditional commitments and disbursement delays are the result of a requirement to meet benchmarks; for example the World Bank administered Public Financial Management Reform (PFMR) Trust stopped disbursement in the fourth quarter of 2005, accounting for over a third of total budget support. However donor budget support has ceased since the 2006 election.	D	
<b>D-2</b>	<b>Financial information provided by donors for budgeting and reporting on project and program aid</b> (i) Completeness and timeliness of budget estimates by donors for project support Full information on donor project funding is not available as discussed under PI-7(ii) above. While some donors such as EC, World Bank and Norway have channeled project assistance through the CTA, some donors have channeled their project funds through PECJAR or preferred separate financial arrangements. Some donors provide budget estimates for disbursement of project aid three months in advance but use a classification that is not consistent with the government's budget classification. (ii) Frequency and coverage of reporting by donors on actual flows for project support As discussed under PI-7 above, MOP has developed a database of projects approved after 2002 with data coming directly from donors. However, it is not yet complete nor fully accurate.	C C C	C
<b>D-3</b>	<b>Proportion of aid that is managed by use of PA procedures</b> (i) Overall proportion of aid funds to the central government managed through national procedures This information is not available. Before the 2006 elections, a significant part of donor project assistance was not managed through national procedures (Since then most donors have been dealing direct with the President's Office rather than MOF, and the actual procedures used are not known.)	C	C

1/ Variance in expenditure composition is calculated as the weighted average deviation between actual and budgeted expenditure, as a percent of budgeted expenditure, on the basis of functional classification and using the absolute value of the deviation. As in PI-I, it excludes debt service and donor funded expenditure, source: IMF.

2/ Calculated as actual domestic revenue minus budgeted revenue as a percent of budgeted revenue, source: IMF.

3/ Budget documentation should include information on the: 1. Macroeconomic assumptions, (aggregate growth, inflation and exchange rate), 2. Fiscal deficit, 3. Deficit financing (describing anticipated composition), 4. Debt stock, 5. Financial assets, 6. Prior year's budget outcome, 7. Current year's budget, 8. Summarized budget data for revenue and expenditure (including current and previous year), and 9. Explanation of budget implications of new policies (budgetary impact of policy changes).

4/ A ↑ highlights progress in indicators where reforms implemented to date have not yet impacted PFM performance.

5/ The indicator was based on external financing forecasts as stated in the budget. The Public Financial Management Reform Trust Fund (PFMR) administered by the World Bank has been in place since April 04.